COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO. 2802-01
BILL NO. HJR 50
SUBJECT: Constitutional Amendments: Property Tax
TYPE: Original
DATE: January 31, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($175,200)	($600,272,101)	($40,056,150)
Blind Pension	$0	($5,250,000)	($5,550,000)
Total Estimated Net Effect on All State Funds	**($175,200)**	**($605,522,101)**	**($45,606,150)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Political Subdivisions*	**$0**	**$0**	**$0**

***Does not include losses of $2,500,000 to County Employees Retirement Fund, which is not considered a government fund.**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **State Tax Commission** stated that the proposal would not have meaningful administrative impact on their agency. They did note that the proposal would lower fees collected by County Collectors and County Assessors (those fees are a percent of the value of taxes collected) without reducing the duties of either of those offices.

Personal property taxes collected in 1998 were $871,000,000. The loss to the state's Blind Pension Fund would have been about $4,400,000 for state FY 1999. Assuming tax collections would continue increasing 6% per year, the amount to be distributed to political subdivisions for tax year 2001 (state FY 2002) would be about $1,030,000,000. The loss to the Blind Pension Fund would be about $5,250,000 for FY 2002 and about $5,550,000 in FY 2003.

Officials of the **County Employees Retirement Fund** noted that penalties assessed on entities which return their personal property lists to County Assessors after the deadline (1 March) and some penalties on delinquent personal property tax are deposited in the Fund. They estimate that this proposal would cause a loss of about $2,500,000 to that fund beginning in FY 2001. They note that if the income were not replaced the long term impact of the proposal would be to reduce pensions 15% tp 20%.

Officials of the **Department of Revenue** noted that they would need to: 1) determine the loss from abolishing the property tax, 2) adjust the sales tax rate accordingly each year, and 3 notify 150,000 businesses in the state of the changed rate. They would also need to handle inquiries about the changed rate from businesses and persons who pay sales tax. They anticipate the need for five Tax Processing Technicians to handle questions (routine and technical) from taxpayers (3,000,000) and businesses (150,000). They also anticipate needing to change existing sales tax systems to handle fluctuating rates and to distribute reimbursements to counties. They anticipate computer system changes would take 7,626 hours to complete and test. State Data Center charges for testing and implementation would be $5,287.

The Division of Motor Vehicles would revise the policy concerning showing proof of payment of personal property tax or proof of non-assessment when persons are registering or renewing registration of motor vehicles. They estimate costs of $7,235 in FY 2002 and $7,226 in FY 2003 for fliers to notify motor vehicle owners of the policy change. Changing the FASTR registration system would cost approximately $6,900 in FY 2002.

Oversight assumes that since the proposal would be subject to popular vote there would not be a need for fliers and that the need for Tax Processing Technicians would be reduced to two.

ASSUMPTION (continued)

Oversight assumes the first reimbursements would be made for tax year 2001 during the state's FY 2002. Oversight also assumes that the Director of Revenue would immediately reimburse political subdivisions upon presentation of reports detailing forgone taxes, but that the replacement sales tax would be collected over the course of the entire year. This would result in a shortfall to the General Revenue Fund of about $600,000,000 in FY 2002.

Advertisement costs for the proposal would be $4,380 per newspaper column inch for three publications of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2000 general election.

FISCAL IMPACT - State Government	FY 2001	FY 2002	FY 2003
GENERAL REVENUE FUND			
Cost to General Revenue Fund			
Secretary of State			
Newspaper Advertisements	($175,200)	$0	$0
Department of Revenue (DOR)			
Personal Service (2 FTE)	$0	$ 41,352	$42,386
Fringe Benefits	$0	12,716	13,034
Expense and Equipment	$0	14,168	730
Updating computer systems	$0	156,580	0
SDC charges	$0	47,285	0
Administrative costs to DOR	$0	($272,101)	($ 56,150)
Cost - Reimbursing Political Subdivisions	$0	($1.03 billion)	($1.1 billion)
Income - Increased Sales Tax	$0	$430,000,000	$1.06 billion
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($175,200)**	**($600,272,101)**	**($40,056,150)**
BLIND PENSION FUND			
Loss - Reduced Tax Collections	$0	($5,250,000)	($5,550,000)

FISCAL IMPACT - State Government	FY 2001	FY 2002	FY 2003
NET EFFECT ON BLIND PENSION FUND	**$0**	**($5,250,000)**	**($5,550,000)**

FISCAL IMPACT - Local Government	FY 2001	FY 2002	FY 2003
POLITICAL SUBDIVISIONS			
Income - Reimbursement from State	$0	$1.03 billion	$1.1 billion
Loss - Reduced Personal Property Tax Collections	$0	($1.03 billion)	($1.1 billion)
NET EFFECT ON POLITICAL SUBDIVISIONS*	**$0**	**$0**	**$0**

***Does not include losses of approximately $2,500,000 per year to the County Employees Retirement Fund, which is not considered to be a government fund.**

FISCAL IMPACT - Small Business

This proposal would affect small businesses. They could benefit from personal property tax provisions. They would pay higher taxes on sales-taxed items.

DESCRIPTION

The proposal would eliminate most personal property taxes. The state would reimburse local governments for amounts lost due to the elimination of the personal property tax and the state would replace amounts paid to local governments with increased sales taxes.

This legislation is not federally mandated, would not duplicate any other program, would not require additional capital improvements or rental space. It would affect Total State Revenue.

SOURCES OF INFORMATION

County Employees Retirement Fund
Department of Revenue
Secretary of State
State Tax Commission

Jeanne Jarrett, CPA
Director
January 31, 2000